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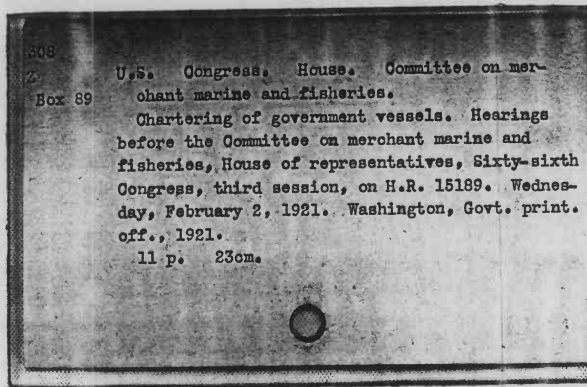
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# CHARTERING OF GOVERNMENT VESSELS

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## HEARINGS

BEFORE THE

## COMMITTEE ON THE MERCHANT MARINE AND FISHERIES

HOUSE OF REPRESENTATIVES

SIXTY-SIXTH CONGRESS

THIRD SESSION

ON

### H. R. 15189

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WEDNESDAY, FEBRUARY 2, 1921



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1924

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# COMMITTEE ON THE MERCHANT MARINE AND FISHERIES.

## HOUSE OF REPRESENTATIVES.

SIXTY-SIXTH CONGRESS.

WILLIAM S. GREENE, *Massachusetts, Chairman.*

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# CHARTERING OF GOVERNMENT VESSELS.

COMMITTEE ON THE MERCHANT MARINE AND FISHERIES,  
 HOUSE OF REPRESENTATIVES,  
*Wednesday, February 2, 1921.*

The committee met at 10.30 o'clock a. m., Hon. William S. Greene (chairman) presiding.

The CHAIRMAN. Gen. Hulings, we will hear you on H. R. 15189, a bill to encourage and promote the American merchant marine, and for other purposes. The bill reads as follows:

A BILL To encourage and promote the American merchant marine, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the United States Shipping Board be authorized and directed to charter Government-owned ships under its control to responsible parties making application therefor, upon the following terms:

First. That any such charters shall be granted only to American citizens to be operated under the American flag and American navigation laws.

Second. That the Shipping Board shall be at the expense of keeping the ships so chartered insured and properly repaired.

Third. That the rental charged for the use of any such ship shall be fixed in the discretion of the board so as to permit such ship when operated with ordinary care to successfully compete with foreign ships engaged in substantially the same trade.

Fourth. That said board in fixing the rentals may discriminate between ships engaged in different trades so as to enable them to meet foreign competition and yet so far as possible to secure a reasonable compensation for the use of said ships.

## STATEMENT OF HON. WILLIS J. HULINGS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA.

Gen. HULINGS. You know what the bill is. The Shipping Board has charge of about 1,700 American ships of one kind and another, more or less good. They have tried to sell those ships. They did sell about 300 of them, mostly of the smaller sizes and poorer ships, many of them wooden ships, and they have sold a number of the better ships at prices running from about \$165 to \$300 a dead-weight ton. Our ships cost us probably \$240 or \$250 a ton to build during the war. If you will take a 10,000-ton ship at \$200 a ton that is a cost of \$2,000,000, and the Shipping Board in the allocation of these ships makes the people who operate them insist that they get rates of freight sufficient to pay 23½ per cent of the cost of the ship to cover the cost of insurance, interest on the money, repairs, and replacements. They must get freight rates that will pay 23½ per cent and the cost of operation.

Mr. SCOTT. Twenty-three and one-half per cent, based on the actual cost of construction?

Gen. HULINGS. Based on their assumed cost.

Mr. SCOTT. Not assumed, General; actual.

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Gen. HULINGS. Well, they do not know what the actual cost of any vessel is. They take sort of an average price. And from \$225 a ton they have reduced that down now for most vessels to \$165 a dead-weight ton. And assume, for easy figuring, \$200 a ton on 10,000-ton vessels, that is \$2,000,000. Twenty-three and one-half per cent is \$470,000 a year, practically; and on an average of six trips a year, which would be rather more than the boats would make ordinarily, to Mediterranean ports, at least—

Mr. EDMONDS. A trip to Europe is a good thing to base it on.

Gen. HULINGS. Call it six trips, even, that would be about \$80,000 a trip. If that boat goes out with 8,000 tons of cargo and comes back partially in ballast, with, say, 4,000 tons of cargo, that is about \$6.66 a ton. You know there would be absolutely no chance of a profit when freights are as low as \$8 or \$9 and foreign ships are actually shipping coal to-day from Hampton Roads to Rotterdam for \$4.50 a ton.

Mr. CHINDBLOM. Who are; the Shipping Board?

Gen. HULINGS. No; of course, the Shipping Board is not doing anything of that kind. They have their ships tied up at the docks and this great fleet we talk about unless used is a dead loss, with interest on the money, insurance, and all that kind of thing, which goes on pretty much the same.

The CHAIRMAN. Are they not down here at Hampton Roads or in the James River?

Gen. HULINGS. Hundreds of them tied up there.

The CHAIRMAN. They are tied up there because it is more economical to tie them up at the docks.

Gen. HULINGS. More economical than to run them, because they can not run them and pay this 23 per cent. Now, if they are not going to run them they are going to be a dead loss, and if they do run them they can not expect anything else than to meet foreign competition.

Mr. CHINDBLOM. But, General, I have heard it claimed they are running their ships at an actual loss. Do you mean to say they are not running at all?

Gen. HULINGS. Oh, no; they are running some of them, but they have many of them tied up. I have a son who is general manager of a concern that has some of the ships allotted to that company. Those ships are all tied up but two or three; they can not get the cargoes at the rates of freight which the Shipping Board insists upon.

Mr. EDMONDS. Are the crews on them, or are they tied up without crews?

Gen. HULINGS. Yes, sir; they are tied up with the crews on them, expecting to get a cargo at any time; but the trouble, as I happen to know, is that the New York office, the Shipping Board office, does not promptly say whether the rates will be acceptable. New York transfers it down to the Washington office, and by the time it gets down there they get word "\$14 a ton don't pay to Buenos Aires; can't you get \$14.50?" You figure on \$14.50. "Yes." "Well, then, can't you get \$15?" and then some foreigner steps in and takes the job and our ship is tied up.

The CHAIRMAN. Is there any other difficulty that prevents our ships from having an equal chance with foreign ships? Isn't there

some other difficulty? Is not the principal difficulty the existing law with regard to employment; is not that a handicap?

Gen. HULINGS. I think there is undoubtedly a disadvantage there. The CHAIRMAN. Isn't it a handicap?

Gen. HULINGS. Yes, sir; it is a handicap. This La Follette bill undoubtedly is more or less of a handicap. But yet when you consider the mere cost of wages, the difference between American and foreign—Scandinavian or the Jap wages, even—that becomes quite negligible in comparison with the great difference that exists between this 23½ per cent that is insisted on as a basis of making rates for our ships as compared with the same charges on European ships.

Mr. EDMONDS. I do not think you ought to make that statement to go into the record, General, without backing it up. In October of this year I compiled, in connection with a friend of mine in New York, in comparison with foreign countries, a statement as to the size of the crews, the cost of the crews, and what the general pay would be in American money, taking the exchange at current rates and not regular rates. I am having the photostatic copies made of those blue prints now. And as of October I have the wage proposition pretty well laid out. If my memory serves me right, a 9,000-ton American boat costs \$5,600 and odd a month in wages. The same size German boat costs \$498 in wages.

Gen. HULINGS. That is largely the difference in exchange?

Mr. EDMONDS. The difference in exchange. However, we will take an English boat, and I have it figured out both ways, in exchange at the normal rates and depreciated. The German boat would cost in the neighborhood of \$7,000 if it was regular exchange.

Gen. HULINGS. The boat would cost?

Mr. EDMONDS. The wages. I am talking about the wages. And, of course, they would not be paying those wages if it was not for the fact the purchasing power of the mark was not good. The English boat would cost \$3,600 against our \$5,600 in normal exchange and \$3,100 at the present rate of exchange, or something like that—\$3,300 or \$3,500. And there is a considerable difference. Now, the Norwegian, Swedish, and Danish ships are cheaper than the English ships by a few hundred dollars a month. The result is that the La Follette bill, by not allowing these men to get their employment wherever they can, causes a difference of nearly 100 per cent in the wages of the crew. And in order to keep one of those 9,000-ton boats going, if you just take the wages into consideration, we would have to pay \$25,000 to \$30,000 a year to make up the difference in wages. Therefore I do not want you to say that the wage question is a negligible quantity in the running of a ship; it is a very serious proposition.

Gen. HULINGS. It is a serious thing, but I said it was negligible as compared with the aggregate of these other charges.

Mr. EDMONDS. I think I have the only real and true statement of cost of crews made, because it is not made by an interested party and it is made absolutely from information brought from the other countries.

Gen. HULINGS. Oh, no; I do not want to be understood as saying it was a negligible thing; it was only negligible as compared with this other great cost of operating under this 23½ per cent charge.

Mr. EDMONDS. How do you make up your 23½ per cent charge?

Gen. HULINGS. I do not make it up; the Shipping Board makes it up. I think, roughly, it is 5 per cent for insurance, 5 per cent for interest on money, and the balance of the 23½ per cent is made up between repairs and replacements. And that is what they have always written into their contracts—23½ per cent.

Now, the point is this, the ships must be used or they are a dead loss; if they are used, they must meet foreign competition and foreign competition may make rates that will oblige our Government to forego in whole or in part some of these charges for insurance and interest, and so on. In other words, 23½ per cent is more than the operator can pay and use that ship. Then, again, if the Government uses these ships and puts them in the hands of operators who know how to run them and incite and encourage their personal ambition and energies to go into this carrying trade at rates that will enable them to meet foreign competition, then the Government is getting all that the business will pay for the use of those ships.

Mr. EDMONDS. Suppose we made the value of this \$2,000,000 ship \$1,000,000; then you would have to get \$230,000 a year to cover what you propose in section 2 of your bill?

Gen. HULINGS. Yes.

Mr. EDMONDS. That would be \$20,000 a month, in round figures. You calculate to make six trips a year; that is two months for each trip, or \$40,000, and for this 10,000-ton boat that is \$4 a ton.

Gen. HULINGS. It would be a little more than that, because a 10,000-ton boat could only carry 8,000 tons of cargo.

Mr. EDMONDS. It would be a little more; say, \$5 a ton. Even then you could not meet competition at the present day.

Gen. HULINGS. No. If you take that boat at \$100 a ton, you may have to do what the English do. I suppose the average English mercantile marine to-day is not valued for these purposes at over \$70 a ton.

Mr. EDMONDS. Mr. Moller, who is one of the largest shipowners in Denmark, was over here the other day and came down on the train with me, and he told me his fleet was virtually new since the war started and that he had so depreciated his prices that they were carried on the books to-day at \$25 a ton. He said they cost him in some cases \$125 a ton, which he thought was an exorbitant price; but he says they are virtually new, and they stand on his books at \$25 a ton; and he says, "I am willing to meet any competition in rates they want to make here."

Gen. HULINGS. There is the point this Government has to reach. While the Shipping Board has the authority under the law now, as I understand it, they don't do it.

Mr. EDMONDS. No man I know in the shipping business to-day feels confident if you would walk out and say to him, "I will charter you these ships at \$2 a ton and I will pay for all the repairs and pay all the insurance and I will keep the ship up, and you have to supply the food and the crew, the motive power—the coal—and all that sort of thing." I do not know of any man that will make a charter with you at that rate.

Gen. HULINGS. If that is true, then there absolutely could be no harm in this bill of mine.

Mr. EDMONDS. Yes; but I am afraid there would not be any good, either.

Gen. HULINGS. No; there would not be any good, that is true; it would be purely harmless, negligible, inefficient.

Mr. EDMONDS. It is along the right lines; I am not finding fault with your bill. I go a little further than you; I want them to sell these ships at a price even below \$100 a ton, if necessary, and I want them to sell on the basis of an absolute bare-boat charter, just the same as you would lease a house, by which the man agrees to keep the boat in repair, agrees to keep it insured, and to do everything necessary. I want him to make a good payment down on that boat—say 10 per cent—and then I want the balance of it to be paid in monthly installments on a low bare-boat charter rate, a part of that to go to interest and part of it to go to principal until, like a building and loan association, they have amortized the price and paid up, and then the ship belongs to the man.

Gen. HULINGS. The trouble with that thing, Mr. Edmonds, is this, and just what you would run up against, what the people who have bought the boats that they have been sold did run up against—nearly every one of them has gone into bankruptcy. I know a man in New York who made about \$2,000,000 in the shipping business during the war, and after the war was over he bought a lot of ships, and he is in bankruptcy to-day and has not a dollar.

Mr. EDMONDS. It does not happen to be Mr. Frankel, does it?

Gen. HULINGS. Yes; Mr. Frankel.

Mr. EDMONDS. When the Shipping Board is through with Mr. Frankel and the story is known, Mr. Frankel will not feel very pleasant.

Gen. HULINGS. Well, however that may be, the buyer of a ship to-day knows that with this great fleet of ships the Government owns and which they are trying to operate, that he has got to go into competition with them.

Mr. EDMONDS. But when you take a pants manufacturer or a shirt manufacturer and try to make a shipping man out of him you are trying to make a purser out of a South "Sea-er."

Gen. HULINGS. That is probably so, but everybody who has bought a ship from the Government has been saddled with great loss.

Mr. EDMONDS. Mr. Frankel has not an account for any one to go on over there, and when a man does not keep accounts it is mighty suspicious.

Gen. HULINGS. But all the men who did buy ships were saddled with great loss.

Mr. EDMONDS. And also great profits, which they have managed to hide in subsidiary companies, very probably.

Gen. HULINGS. No; not those who bought ships since the war and after these war rates went back. When it was \$70 a ton a man could make the price of a ship in a voyage, but at \$12 to \$15 and \$20 a ton they can not.

Mr. EDMONDS. I saw one man who bought five ships off of the Shipping Board and who is complaining very bitterly now, and I saw his profit sheet and he made \$900,000 a year out of those ships.

Gen. HULINGS. During the war?

Mr. EDMONDS. No; the first year after the war. He showed me his profit sheet himself.

Mr. CHINDBLOM. How big an investment was that?

Mr. EDMONDS. I think he had about \$25,000 before the war and he used that to pay down on five ships, and he showed me his balance sheet and he had \$900,000 profit.

Mr. CHINDBLOM. How much did he put down on the ships?

Mr. EDMONDS. He only paid \$10,000 cash down, and I think he has paid \$200,000 on each ship now. General, you understand I agree with you that the only way to handle these ships is by some bare-boat propositions; I go that far with you in this bill, but I do feel this: That the ships got into the hands of men who simply wanted to make money out of them.

Gen. HULINGS. Naturally, that inducement led them into it, and anybody else would want to get a profit out of them.

Mr. CHINDBLOM. Would anybody else go into the shipping business who did not?

Mr. EDMONDS. No; I mean the men who wanted to make enormous profits. The man in the shipping business regularly did not look at it that way. There is a question whether the United States Mail to-day is going to take those German ships we have had such a fight over. The situation has got so bad you have got to get these ships at a low figure in order to run them.

Gen. HULINGS. Precisely. And that is the object of this bill.

The CHAIRMAN. There is a general dullness in all shipping business to-day, is there not?

Gen. HULINGS. Oh, yes.

The CHAIRMAN. In all countries?

Gen. HULINGS. Yes. The foreigners are coming right over to this country now and taking cargoes right away from American ships because they will do it for less money than we can afford to carry the ship or the cargo for.

Mr. EDMONDS. Basically, the Shipping Board's proposition shows the weakness of Government ownership. They were so afraid of showing favoritism they had to establish a freight rate that was not elastic, and the result is they could not operate ships and they let these other fellows come in and take the contracts.

Gen. HULINGS. The Shipping Board did not have vision enough to see these war rates of freight were insufficient and they were bound to react, until now they are lower rates than there ever were for some things.

Mr. EDMONDS. It took me three months last summer to persuade them even to agree to try to meet any competition. I was down here every week and I had a fight with Mr. Donald on the question and after everyone came in here and closed contracts—why, coal is being hauled out of Newport to-day on contract at \$12.50 a ton, and I came down and tried to persuade them to look on that thing as a contract and without making regular rates, as they wanted to, and when a man came in there with a tonnage of 500,000 or 250,000 tons to be carried, to make a special figure on it, and they refused to do it.

Mr. CHINDBLOM. They did not like to do that because they thought they were breaking prices.

Mr. EDMONDS. And after everybody had walked down here and offered them business and been turned down and then went away and closed the business with English ships, they made up their minds to break prices when there was no business to be gotten.

Gen. HULINGS. If the committee will permit me to say something here that is not involved in this bill, but which is involved in this question of the American merchant marine, and that is, if we do not get into the game we might just as well hang our harps on the willow and this great big fleet you are hollering about won't be worth any more than so many painted ships on a painted ocean. You have to get into the game, and that means to equip the ships with the internal-combustion engine. It is a proved, demonstrated, and established success. There are 100 ships plying the ocean with the Diesel engine, and it is absolutely established that freightage costs in the proportion of 7 to 12 can be cut by the mere addition of the Diesel engine. We have been talking about that for two years and have not built a boat.

Mr. EDMONDS. I have been talking about Diesel engines ever since I have been on the committee.

Gen. HULINGS. You are dead right about that. And many of these ships now tied up at the dock could be transformed—of course, the great fleets of the world for a long time will be run by steam-engine motors, and the people who have enormous amounts of capital invested in steam-engine ships will try to wear out those ships in the trade. But they are going to be displaced; every one of them will go onto the sliding board and they will be junked by these better, newer, more economical motor ships with the internal-combustion engine.

Mr. EDMONDS. It increases your cargo space 12 to 15 per cent?

Gen. HULINGS. Yes, sir.

Mr. EDMONDS. And cuts down your running expenses wonderfully in your crew?

Gen. HULINGS. You don't need so large a crew and save the space taken up by the great water tanks and coal bunkers.

Mr. EDMONDS. You can cut your crew down 14 to 15 people and carry oil in your water tanks, and you can carry enough oil to go around the world.

Mr. CHINDBLOM. But, of course, eventually the foreign ships, when they put in Diesel engines, will have the same advantages over us they have now—when they have Diesel engines and we have them.

Gen. HULINGS. Under the La Follette bill.

Mr. CHINDBLOM. Under present conditions.

Gen. HULINGS. Yes. You take the British shipyards, the ships that have been ordered since the 1st of last July, 60 per cent of them are internal-combustion engine ships. The Scandinavians, the Belgians, and the Norwegians do not build any other kind of a ship when they can get the engines.

Mr. EDMONDS. Let me say there is one good thing I heard within the last 10 days. It appears in running a Diesel engine boat it is customary to put two sets of engines on and to have two propellers, so that if one set of engines was to break down the other one could operate. There is a man up in New York State associated with a man who is a naval architect or naval engineer who has been working at Hog Island, and they have invented a proposition by which through coupling they can put in two Diesel engines and run them on one propeller; in other words, either set of engines will run separately or they will run collectively, which to me is a decided advance. Now, if that can be done, there should be a great cutting down of expense, and



it should be possible to change a lot of these boats to Diesel boats. And I have talked in this committee since 1914 of Diesel engines, and I have talked with every man who has anything to do with shipping, but, of course, I do not expect and did not expect during the war that you would be able to get many Diesel engine boats, but I am exceedingly disappointed to know that we have only one.

Gen. HULINGS. And in that the engine is not installed.

Mr. EDMONDS. And in that the engine is not installed. There is no trouble about getting Diesel engines; you can get them. There are 20 manufacturers in this country manufacturing motors for boats, and we can get them.

Gen. HULINGS. I was talking to Admiral Benson about this the other day, and he has the same view that my son has, who is an Annapolis man and acquainted with the Diesel engine. His idea is to electrify; that is, to use a Diesel engine as a dynamo to make the electric current, and then all over the ship to use small motors. And Admiral Benson is very strongly of that opinion, and he says the only hope of the American Navy and the merchant marine is in the internal-combustion engine. I think he is quite right about that, and it is sure to come to it.

Mr. EDMONDS. But you will come to the same competitive point after all. Suppose the other fellow builds just as cheap as you do and puts in a Diesel engine just as you do and gets his ship just as cheap as you do, then you come down to the same proposition and you are up against the same competition again.

Gen. HULINGS. They are up against the same proposition and they probably can not make Diesel engines and ship any cheaper than we can, and the great element of cost in carrying freight is not the money that you pay to the crew; the great element, the prepondering cost, is insurance, repairs, and interest on the money, the interest on your ship. If we get into the trade quickly we can build Diesel engines as fast as all the rest of the world.

Mr. EDMONDS. You know it costs millions and millions of dollars to equip these ships with Diesel engines now.

Gen. HULINGS. You might as well do that as to tie them up at the docks.

Mr. EDMONDS. I understand Mr. Hurley contracted for a lot of Diesel engines and then sold them afterwards as junk; is that true?

Gen. HULINGS. I have not heard it.

Mr. EDMONDS. He bought Diesel engines and had Diesel engines delivered and never installed them and they were sold afterwards for a low price.

Gen. HULINGS. I have not heard anything of it.

Mr. EDMONDS. I think you will find it in the testimony of the Senate committee that they were bought and afterwards sold. Why they were never installed I do not know, except maybe Mr. Hurley got an international mind like all these fellows did who went to Europe.

Gen. HULINGS. I understood they ordered one Diesel engine for a ship. Mr. Denman, who was strong for Diesel engines, could not get them to build but one ship.

Mr. EDMONDS. Mr. Redfield was strong for Diesel engines part way.

Gen. HULINGS. Part way; yes.

Mr. EDMONDS. He wanted to make this combination schooner, Diesel engine and sail, which he said was the cheapest ship in the world.

Gen. HULINGS. And when you get into the trade winds, Scotch your engine.

Mr. EDMONDS. Scotch your engine and get about 8 knots out of the engine and 8 knots out of the sails, and the ship would go as fast as any ship on the ocean in a good wind.

Gen. HULINGS. One of the big conundrums of the seagoing people is if you have an auxiliary motor on a sailing ship and the ship will go faster under the motor than it would with the sails, how much of a deterrent as your sails; would it be better to have no sails or no motor?

Mr. EDMONDS. If the wind is fast enough you would be dragging your propeller through the water and reversing, virtually.

Gen. HULINGS. That is the idea.

Mr. EDMONDS. If the wind is fast enough, the man would be foolish to waste gasoline, and all he would have to do is to shut the engine off?

Gen. HULINGS. They have a scheme now by which you can put the propeller idle and let it run on the shaft without friction with the water.

Mr. EDMONDS. Twenty-three and one-half per cent must include depreciation and everything?

Gen. HULINGS. Yes; it does—replacements.

Mr. EDMONDS. \$20,000 a month on a ship at \$1,000,000, if you value that ship at \$100 a ton, it would not be possible to earn that nowadays?

Gen. HULINGS. There is the trouble, you know, and they have attempted to keep it up to something like that, and they have attempted to make the prices of the ships which they sold something near what they cost. And the result is every fellow who bought those ships has property now that is not worth what he paid for it, and a great many of those 392 ships they have advertised as having been sold, they have been sold at auction, and those ships are coming back to us.

Mr. EDMONDS. Mr. Gillen put out Mr. Goff's plan by which he wanted to sell the ships at \$67.50 a ton and take the profits on those other ships and amortize the cost and then deduct the profits given them for management.

Gen. HULINGS. There is one thing, that whatever the Shipping Board does, the great losses that the purchasers of those ships have met in buying from the Shipping Board, if you would turn around now and allocate these Government ships to private operators at a very low price, so that they could meet foreign competition, there ought to be something done to protect those fellows who bought those ships at these big prices.

Mr. EDMONDS. That is what Goff proposes.

Gen. HULINGS. And another thing is, with the few fellows who have Government ships and are operating on a plan such as I suggested there, that would throw private owners of ships out of business altogether unless the Government made provision for them.

Mr. EDMONDS. Yes; that is true.

(The hearing was thereupon adjourned.)

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